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More adventurous spirit evident at Remgro, Reinet – even Richemont

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THE RUPERT EMPIRE

THE THREE FACES OF JOHANN RUPERT

MORE ADVENTUROUS SPIRIT EVIDENT AT REMGRO AND REINET – EVEN RICHEMONT

By Marc Hasenfuss

COULD THERE BE a new spirit of adventure permeating through the listed entities controlled by the Rupert family? The Stellenbosch-based dynasty – headed by Johann Rupert – speaks for international luxury brand group Richemont as well as local and offshore investment companies Remgro and Reinet Investments. These companies, which collectively carry a value of more than R220bn on the JSE, have traditionally – particularly Remgro and Richemont – been considered staid and defensive.

The companies – including recently formed Reinet, which retains a meaningful stake in the highly defensive tobacco sector – have been considered stores of reliable value rather than a flash opportunity for above-average growth. Indeed, deal flows have been meticulously measured and a fortress of cash been (prudently, it seems, in the wake of the global financial crisis) maintained throughout all three companies.

It may, of course, be very significant that Johann Rupert, who chairs all three Rupert family-controlled companies, anticipated the financial crisis long before such events rattled the doors of the leading banks in the United States and Europe. "Staid" and "defensive" have become very fashionable over the past 18 months... and Rupert's cult status (he's been dubbed "Rupert the bear" by the international press) among global investors has been much enhanced.

While prevailing circumstances might dictate that the Rupert-controlled companies remain in defensive mode for longer than most, there are very definite signs Reinet, Remgro and Richemont are looking more energetic. That's good, because the recent restructuring of Richemont and Remgro did suggest caution rather than daring. Richemont and Remgro unbundled their respective holdings in British American Tobacco (BAT) and formed a new offshore-based investment offshoot in the form of Reinet Investments (which retained a small strategic holding in BAT).

Richemont also shed its small technology interests, which were bundled into Reinet; while Remgro clinched a significant "better the devil you know" transaction

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when it acquired its corporate cousin VenFin (a tech-aligned investment specialist initially part of the old Rembrandt Group until the late Nineties).

Of course, the unbundling of BAT was a watershed transaction for the Rupert family. Tobacco – since the days of Voorbrand – has glowed at the centre of the Rembrandt Group (and later Richemont and Remgro). Without the reassuring cash flows from BAT it was imperative for Richemont and Remgro – especially in the wake of the global financial crisis – to prove their defensive qualities.

That done, the market is eager to see two robust companies making the most of opportunities created by the painful financial crunch.

While Richemont is really restricted to investments in top luxury brands, there are signs the group – which has taken on an ultra-conservative hue – is looking at broadening its operational focus to incorporate a broader fashion retailing element.

However, the case for investment companies Remgro and Reinet looks even more compelling.

Remgro is big and unfocused – and now leans heavily on its older industrial and financial services investments. Naturally, there are persistent calls to unlock value, sharpen its strategic focus – even dismantle and distribute the underlying portfolio.

Reinet is anchored by the remnants of the BAT shareholding originally housed in Richemont and Remgro. Some regard the BAT holding, which accounts for around 85% of Reinet's value, as "currency" rather than a strategic investment.

Remgro and Reinet can both rely on reliable cash flows/dividends from investments that – currently – dominate the investment portfolio.

Do we then presume there may be a feeder strategy – possibly, as one analyst suggested recently, mimicking Warren Buffett's Berkshire Hathaway model – taking shape at both Remgro and Reinet. Such a strategy would involve the consolidation of investments in well-established and dominant investments plus mobilising cash flows from those "reliable" investments to accumulate and build up more adventurous ventures as well as seek out new opportunities.

Deal flow is what will keep the market(s) excited – especially if Remgro or Reinet can uncover another Vodacom (which generated strong cash flow and created enormous value for VenFin before the stake was sold to Vodafone).

Remgro certainly brought on numerous fledgling investments as well as numerous new media and technology opportunities when it pulled VenFin on board. Reinet, after a quiet start, is also starting to pick up momentum in building a specialised investment portfolio.

Hasenfuss holds shares in Reinet Investments, Richemont and Remgro. ■

COMPANY ANALYSTS' FORECAST

REMGRO	YR1	YR2	YR3
Earnings multiple	14,4	11,2	9,15
Earnings yield %	6,96	8,95	10,9
Dividend yield %	2,11	2,74	3,28
EPS (c)	686	881	1 077
I-Net Consensus: Hold			
RICHEMONT	**YR1**	**YR2**	**YR3**
Earnings multiple	17,8	15,6	13,9
Earnings yield %	5,62	6,43	7,21
Dividend yield %	1,33	1,73	2,42
EPS (c)	162	186	208
I-Net Consensus: Hold			
REINET	**YR1**	**YR2**	**YR3**
Earnings multiple	9,07	7,96	-
Earnings yield %	11	12,6	-
Dividend yield %	0,36	1,09	-
EPS (c)	122	139	-
I-Net Consensus: Hold			

SOURCE: I-NET BRIDGE

THE TALE OF TWO TECH TRANSACTIONS

IT'S NOT EASY TO question the Rupert family's ability to pick trends – especially in the TMT sector – when massive returns have been banked in investments such as Vodacom (which was sold to Vodafone a few years ago). As much as there are hits (such as e.tv and Tracker), there have also been a few misses in its tech portfolio (Intervid being the most prominent).

Last week, when Remgro reported its year to end-March results, the "hit and miss" nature of TMT investment was clear to see. Two of Remgro's most promising recent tech investments couldn't have showed more contrasting fortunes.

A rather unsightly blemish on Remgro's results was the admission its investment in wireless technology specialist Xiocom had been sold for a nominal sum. That was hardly a meaningless flirt. Remgro had invested US$36m (R270m) of a committed investment of $50m into Xiocom. An after-tax loss of $13,5m was incurred on the sale, while Xiocom "contributed" a headline loss of R79m to Remgro's headline earnings.

Remgro CIO Jannie Durand said Xiocom was sold because its performance was reaching the milestones Remgro expected. "It's a sad end. But Xiocom's technology wasn't enough to give it a distinct advantage. We saw the benefits of putting in more capital were outweighed by the risks. I just saw a bottomless pit..."

By contrast, Remgro does seem to be enjoying its investment in undersea cable business Seacom. Remgro values its 25% stake in Seacom at R1,12bn – based on a discounted cash flow model (with a discount rate of 10%). That gives Seacom an enterprise value of almost R4,5bn. Unfortunately, Seacom's operational performance – it provides high-capacity international fibre optic bandwith for southern and eastern Africa – couldn't be gleamed from Remgro's results. Due to differing financial year ends, Seacom wasn't included in Remgro's results.

The value of Remgro's Seacom stake – which has already yielded a maiden dividend – has increased by more than fourfold in two years. The stake was valued at just R264m at end-June 2008 and R1bn at end-June 2009. At the last tally Remgro (then via VenFin) had invested $75m (roughly R560m) into Seacom. ■